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SIPDIS

STATE FOR AF/S
NSC FOR SENIOR AFRICA DIRECTOR JFRAZER
USDOC FOR 2037 DIEMOND
TREASURY FOR OREN WYCHE-SHAW
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SUBJECT: GOZ triples fuel price - again

1. Summary: The GOZ has raised the controlled price of leaded fuel from Z\$ 450 to 1,170/liter. Not enough to reawaken Zimbabwe's somnolent gas stations, but it does partly formalize GOZ recognition of the falling Zimdollar. End Summary.

A 17-fold increase since February

2. In nominal terms, the fuel price has risen from Z\$69 to 1,170/liter since February. However, the former price reflected a large subsidy and a Zimdollar 4-times more valuable. Fuel at Z\$69/liter was also a relic of Libya's discontinued oil donations. Since the new price converts at US\$.21/liter, well shy of a US\$.40/liter international price, it is too low to meaningfully reactivate the retail fuel market. (The GOZ also hiked the controlled diesel price from Z\$250 to 1,060/liter.)

3. Multinational oil companies are pleased the GOZ is again moving in the right direction. Firms are crunching numbers to find a creative way to sell some fuel at new prices, but it won't be easy. The Zimdollar would have to appreciate from a current Z\$5600 to perhaps Z\$4000/US\$1, or be offered at the official rate of Z\$824:US\$1. Alternatively, gas stations might be able to restrict customers to cash sales. (Due to a shortage, Zimdollar banknotes are worth at least 25 percent above face value.)

4. At the same time, the GOZ remains opposed to market-driven pump prices. On August 26, police shut down indigenous player Comoil for selling fuel at Z\$1,700/liter. Comoil belongs to ZANU-PF insider and Politburo-member Savior Kaukuwere. Speculation is rife that competing ZANU-PF fuel interests triggered the clampdown, fodder for flashy front-page coverage in the GOZ's Herald. During the fuel crisis, various indigenous groups have taken over business from multinational oil companies. Now they vie against one another.

Comment

5. Any time the GOZ owns up to a weaker Zimdollar (the official rate is one-sixth of today's exchange), we are encouraged. For a government that denies any part in the economy's steep economic decline, the freefalling currency is sensitive territory. On the other hand, the GOZ forever chases, but never catches, real-world prices for its currency and many controlled products. Because producers want to make money - not lose less - on each sale, the GOZ expends political capital but leaves problems unresolved. The only sensible answer is market-determined pricing.

Sullivan